



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: August 19, 2008

TO: Mayor and Councilmembers

FROM: Administration Division, Finance Department

SUBJECT: Opposition To State Borrowing Of Local Government Funds

RECOMMENDATION:

That Council adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Opposing State Budget Decisions That Would Borrow Local Government, Redevelopment and Transportation Funds.

DISCUSSION:

The State is facing a continuing budget deficit estimated at over \$15 billion. As they have done numerous times in the past, the Legislature is apparently considering taking ("borrowing") local government property tax and transportation revenues in an effort to avoid actually resolving the State's budget imbalance. The City Council has already gone on record opposing this potential State grab of local funds and is working with and through the League of California Cities to make our voice heard in Sacramento. The Mayor has sent a letter to the Governor and legislative leaders of both parties expressing the City's strong objection to this proposal.

The City believes that a potential State borrowing of local government property tax and transportation funds is bad public policy for a number of reasons. First, the State's voters have spoken. In November, 2004, in response to the State's previous raids on local government funds, over 83% of the State's voters approved Proposition 1A which protects local government tax revenues from State raids except in cases of fiscal emergency. In November, 2006, over 76% of the voters approved another (different) Proposition 1A which extended similar constitutional protections to transportation revenues, also except in cases of a fiscal emergency. These are the same constitutionally protected funds that the Legislature is now considering diverting from their intended use to fill the State's budget gap. We agree with other local governments that a lack of political will to balance the State's budget does not constitute what voters meant by a "severe state fiscal hardship."

The other significant objection to the proposal is that it is borrowing. Borrowing funds is not a responsible solution to a structural budget imbalance. Under the terms of the 2004 Proposition 1A, the State is required to repay any borrowing of these protected funds, with interest, within 3 years. The State is apparently considering a plan under which they would “borrow” local government funds now and then repay them, as required, in 3 years by borrowing yet again. Borrowing money to repay borrowed money is not a responsible approach to the State’s serious budget problems. Further, despite the provisions of Proposition 1A, there is no guarantee that the State will repay the funds as required. If the budget situation is still unresolved three years from now, the State may not have or be able to borrow the funds necessary to meet their repayment obligation, and it is unclear whether even the courts would have the authority to order the State to do so.

There is no doubt that the State faces a daunting fiscal situation that will require difficult and likely painful choices that will affect all residents. However, we believe that borrowing, specifically borrowing local government funds needed for critical local services, is not part of a responsible answer. Adoption of the resolution accompanying this report will reiterate the City’s strong objection to such a plan.

SUBMITTED BY: Robert D. Peirson, Finance Director

APPROVED BY: City Administrator's Office